

**USDA RURAL DEVELOPMENT**

**Statement of Thomas Dorr, USDA Under Secretary for Rural Development, before the Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies.**

Madam Chairwoman and Members of the Subcommittee, thank you for this opportunity to present the President's Fiscal Year 2009 Budget for USDA Rural Development.

I am accompanied today by the Mr. James Andrew, Mr. Ben Anderson, and Mr. Russ Davis, the Administrators of USDA Rural Development's Utilities, Business and Cooperative, and Housing programs respectively. I ask that their witness statements be included in the record.

For Fiscal Year (FY) 2009, the President's budget proposes \$2.1 billion in budget authority to support a program level of \$14.9 billion for USDA Rural Development. These totals, however, do not include the significant additional funding contained in the President's separate and pending Farm Bill proposal. This is, therefore, an inherently two-track discussion.

You will recall that we were in the same situation last year; as Yogi Berra might have put it, this is "déjà vu all over again." As was the case a year ago, several of the President's major

initiatives for USDA Rural Development are carried separately in the Farm Bill and are, therefore, not reflected in the current budget request:

- The budget request we are discussing today, for example, contains no funding for the Renewable Energy and Energy Efficiency Loan and Grant Program. The President, in fact, has proposed a significant increase in mandatory funding for this program but these funds are contained in the Farm Bill.
- The President proposed significant mandatory Farm Bill funding for rural health care facilities, mandatory Farm Bill funding to reduce the backlog in applications for rural water and wastewater systems, and mandatory Farm Bill funding for Community Facilities loan and grant programs that assist rural first responders, for broadband access loans, and for distance learning and telemedicine grants. Again, all of these Farm Bill proposals are in addition to the budget we are discussing today.
- Finally, the deployment of rural broadband is a significant Farm Bill issue, as well as a high priority for USDA Rural Development. Last year, we proposed new regulations to strengthen the Broadband Program. We have withheld publication of the final rule until the Farm Bill is enacted.

We are anxious for a speedy conclusion to the Farm Bill debate. For the time being, however, I will confine my remarks to the FY 2009 Budget proposals submitted, exclusive of the additional Farm Bill funding.

## **USDA Rural Development Fiscal Year 2009 Budget**

The FY 2009 Budget request reflects the continuing realignment of USDA Rural Development to meet new challenges and opportunities. Mr. Andrew, Mr. Anderson, and Mr. Davis have reviewed our Utilities, Business and Cooperative, and Housing and Community Facilities programs in specific detail in their witness statements. I would like to provide a strategic context to that discussion.

### **Role of USDA Rural Development: Growth and Change**

The FY 2009 Budget is not a status quo proposal. The mission of USDA Rural Development is to increase sustainable economic opportunities and improve the quality of life in rural communities. Our role is growing; USDA Rural Development's loan and loan guarantee portfolio, for the first time in history, now exceeds \$100 billion.

Our mission is also evolving. The rural economy is increasingly diversified. The deployment of renewable energy is a national priority as well as an historic opportunity for economic growth, new jobs, and wealth creation in rural areas. Broadband and information technology are eroding the old barriers of time, distance, and isolation. Both businesses and individuals have gained new and unprecedented freedom of location. Technology enables rural communities to provide better health care, better schools, and other vital community services.

The FY 2009 Budget, therefore, recognizes the need to engage rural America's wealth in a transparent, responsible, and fiduciarily sound manner to not just create wealth, but to capture and leverage it for sustainable growth in rural communities. High-priced energy has created challenges, but a great unsung story associated with it is the rapid growth in rural wealth. These are assets that can be leveraged. If we can successfully displace one billion barrels – or more – of imported oil with domestically produced energy, that alone would represent a new market larger than the projected net farm income for 2008 as established by the Economic Research Service -- and biofuels are just one of the new economic drivers coming into play.

It is clear that as an agency we must adjust to these changes. Many rural stakeholders have embraced a new and more aggressive vision for rural development, and so have we. We cannot remain a static provider of traditional programs in traditional locations via traditional methods and hope to remain relevant in this new, dynamic, and increasingly competitive rural marketplace. In the past we have too often been perceived as merely a lender of last resort. Today, we strive to function as an investment bank for rural America, and as a catalyst for change in rural America. We are streamlining programs, realigning offices to better address market needs, and setting new priorities. We are challenging our staff to rise to new opportunities; they have responded superbly.

These initiatives are the culmination of almost seven years of careful planning and methodical implementation. I recognize that this is the last time I will come before you to present a budget on behalf of the Bush Administration. Let me say simply that we – both we at USDA Rural Development and the Members of this Subcommittee – are the trustees of a long

and honorable tradition of service to rural America. I am proud of what we have accomplished in the past seven years. We have come a long way. There is much yet to be done.

### **USDA Rural Development: Agency in Transition**

USDA Rural Development is an agency in transition. The FY 2009 Budget request includes an increase in USDA Rural Development's S&E account, to \$700 million, to support a major, multi-year program of modernization and realignment. Specifically:

- In FY 2001, Rural Development's FTE staff year estimate was 7,020. We are on track to reach our proposed FTE staff year estimate of 6,100 by FY 2009. This has been accomplished through attrition and a limited number of voluntary early retirements.
- Several hundred small, single-purpose offices are being consolidated in order to streamline operations and ensure that all programs are available at all locations. Each State has developed a new business plan and is on track to complete realignment by mid-2008. At that point, we anticipate that the field structure will consist of 448 offices.
- The savings generated from office consolidations and FTE reductions are being partially reinvested in training and technology. In addition, we require an increase of \$26.6 million in the FY 2009 S&E account for capital improvements which will support changing market demands.

- We are investing in technology to improve efficiency and transparency. We have developed a new tool, the Socio-Economic Benefits Assessment System (SEBAS), to increase accountability and improve the targeting of resources. We are working, both through proposed legislative changes and via administrative reform, to streamline program platforms and simplify administration both for our own staff and our customers.

As we consolidate offices, we are retraining staff to assume new responsibilities and increase productivity, even as we reduce total numbers. We also continue to shift our emphasis from grant and direct loan programs to loan guarantees in order to leverage more private investment, improve the quality of our loan portfolio, and serve more people and communities at lower cost.

The enhanced business plans we are now implementing are positioning us to respond to new market demands and anticipated program delivery expectations. They reflect our commitment to economy, efficiency, and the need to leverage technical advances to sustain and deliver services in a challenging budget environment. With these changes, along with our ongoing branding, marketing and outreach efforts, USDA Rural Development will be able to serve more customers over a larger geographical area with improved service and better stewardship of public resources.

## **Doing More with Less**

We are proud of our record of increasing investment in rural America while holding the line on spending. This has driven investments in training, productivity enhancing technology, and an ongoing shift to guaranteed lending platforms. We are committed to sustaining this progress in the years ahead.

A decade ago, in FY 1999, \$2.2 billion in budget authority supported a program level of \$9.6 billion. The FY 2008 Budget authority of \$2.3 billion will support a program level projected at \$18.5 billion. For FY 2009, we are requesting a budget authority of \$2.1 billion to support a program level of \$14.9 billion, exclusive of the separate Farm Bill initiatives. We continue to explore avenues for increasing efficiency and are working hard to encourage a culture of innovation across USDA Rural Development.

## **Housing and Community Facilities**

The FY 2009 Budget requests approximately \$1.1 billion in budget authority to support a program level of approximately \$6.7 billion for our Single Family Housing, Multi-Family Housing, and Community Facilities programs.

We are committed to assisting rural Americans in achieving the dream of homeownership, to ensuring that low-income rural residents have access to decent, affordable

housing, and to helping rural communities provide quality health care, good schools, and other essential community services. The FY 2009 Budget sets clear priorities in these areas.

The first priority of our housing programs must be to protect the most vulnerable rural residents. The FY 2009 budget requests \$997 million, an increase of \$518 million over the FY 2008 figure, to fully fund the Rental Assistance (RA) Program.

This is by far the largest FY 2009 Budget increase in Rural Development. In recent years, inherently short-term savings have been achieved by reducing the term of RA contract renewals. As we have discussed with the Committee on many occasions, this tactic has postponed but not eliminated full-cycle renewal costs. The bill is now coming due. We have completed the transition to one-year renewals. The average income of RA recipients is about \$8,500 a year. The majority are elderly or disabled. Full funding of RA is an urgent priority.

As a part of the RA request, we are allocating \$100 million for a new pilot program for rental assistance vouchers. Providing vouchers in a few select properties in lieu of traditional RA will allow us to target the rental subsidy to low-income tenants rather than the property owners and their projects and would begin to give us some flexibility in funding that currently is not the case with traditional RA grants.

A second objective is to maximize the return on the taxpayers' dollar by shifting from grants and direct loans to loan guarantees wherever possible. In the Multi-Family Housing Program, for example, the FY 2009 Budget requests \$1.7 million in budget authority to support



\$300 million for guaranteed lending for new construction and rehabilitation of multi-family housing properties. This represents a 51 percent increase in program level over FY 2008 despite a savings of \$40 million in budget authority. This is achieved via a shift to guaranteed lending.

Similarly, the budget proposes a robust Single Family Housing program level of more than \$4.8 billion achieved with a savings of \$142 million in budget authority. These savings are again generated by a shift to guaranteed lending. We believe that this will allow us to serve more individuals across all income levels.

Finally, for the Community Facilities Program, the FY 2009 Budget seeks \$512 million, including \$302 million for direct loans and \$210 million for loan guarantees. In addition, the President has proposed significant levels of mandatory Farm Bill funding to reduce the backlog of applications for the rural health-care facilities and first-responder programs.

### **Utilities Programs**

The FY 2009 Budget proposes approximately \$6.7 billion for rural utilities programs. Infrastructure is the foundation of a modern quality of life and is essential for sustainable economic and community development. Rural areas continue to face the special challenges of providing modern infrastructure in a low-population density environment, and assisting them in meeting these challenges remains a core mission for USDA Rural Development.

For the rural Electric Programs, the FY 2009 Budget proposes \$4.1 billion in direct loans. The significant change in this area is the replacement of the current Federal Financing Bank loan

program with a program that provides loans made directly from Treasury. This will improve program efficiency without impacting borrowers. We continue to focus our Electric Program's lending to transmission, distribution, system improvements, and environmental improvements.

In addition, the budget proposes a continuation of Telecommunications Programs funding at slightly increased levels and \$20 million for Distance Learning and Telemedicine grants. Rural broadband is a high priority and the budget requests \$298 million for the Broadband Program. We anticipate that the amount requested will be sufficient to meet program demand.

For the Water and Waste Disposal Programs, the FY 2009 Budget provides for \$1.3 billion in direct loans (vs. \$1.0 billion in FY 2008), \$75 million in guaranteed loans (same as FY 2008), and \$220 million in grants (vs. \$469 million in FY 2008). Due to lower interest rates, reduced subsidy rates, and a greater emphasis on direct and guaranteed lending rather than grants, we anticipate that more communities can be assisted using less budget authority than estimated in FY 2008. Finally, in addition to the FY 2009 Budget request, it should be noted that the President has proposed substantial mandatory Farm Bill funding to address the backlog of applications in this area as well.

### **Business and Cooperative Programs**

The FY 2009 Budget request seeks \$49 million budget authority to support \$738 million in direct and guaranteed loans and grants for Rural Business and Cooperative Programs. The budget proposes to fund the Business and Industry Guaranteed Loan Program, the Intermediary

Relending Program, and the Rural Cooperative Development Grant Program. We anticipate that in FY 2009 these programs will assist approximately 700 small businesses and create or save more than 34,000 jobs in rural communities.

As this budget request suggests, USDA Rural Development's Business and Cooperative Programs are being transformed. As noted earlier, we have developed a new accountability tool, SEBAS, that will improve program assessment and targeting of funds. We have established a Delivery Enhancement Task Force to simplify and standardize our grant, loan, and loan guarantee platforms across all program areas. We have made renewable energy our priority in our business programs and are reassigning and training staff to respond to a rapidly evolving rural business environment.

Pursuant to these objectives, the President in the Farm Bill has proposed a comprehensive streamlining of our business and cooperative programs. We believe we can serve our borrowers more efficiently through a consolidated and streamlined program structure.

The FY 2009 Budget request also includes no funding for the Renewable Energy and Energy Efficiency Program because the President has separately proposed substantially increased mandatory funding in the Farm Bill. In addition, the Farm Bill proposes a significant funding increase for the Biomass Research and Development Program.

## **Conclusion**

In closing, the FY 2009 Budget request recognizes and accepts the challenges of this budget cycle. It focuses resources on new challenges and opportunities. It reflects an agency in rapid transition and invests in information technology and training to give our staff the tools they need to succeed in a new, more dynamic environment. It continues the evolution away from grants and direct loans to more efficient guaranteed lending platforms. It provides a strong foundation for increasing economic opportunity and improving the quality of life in rural America.

This concludes my testimony, and I will be happy to respond to your questions. Thank you.